Haseltine Lake Staff Pension Scheme

Statement of Investment Principles

August 2019

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1. Introduction

1.1 Purpose of the Statement

This statement sets out the principles and policies that govern investments made by the Trustees of the Haseltine Lake Staff Pension Scheme.

1.2 Statutory Requirements

This statement is made in accordance with the requirements of the Pensions Act 1995 and the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004.

The Trustees are aware of the Pension Regulator's Investment Guidance for defined benefit pension schemes dated March 2017 and of the Myners Principles which were updated in 2008. The Trustees consider this guidance in determining its investment policy.

1.3 Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees have obtained and considered written advice from their investment adviser.

The Trustees are advised on investment matters by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

1.4 Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

1.5 Reviewing this Statement

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment policy.

A copy of this statement and any amendments made to it are available to the Scheme Actuary and to the managers of the pooled investment vehicles used by the Trustees.

2. Objectives and Strategic Allocation

2.1 Investment Objectives

The Trustees have set an investment strategy that reflects the following primary investment objectives:

- **Generating an appropriate level of investment returns –** the Trustee is aiming to achieve a funding level of 100% on the Technical Provisions assumptions and thereafter to maintain 100% funding thereby improving security for the members.
- **Managing cash flow requirements –** to ensure that sufficient assets and cash flows are available to pay members' benefits as and when they arise.
- **Protecting the funding position –** to limit the scope for adverse investment experience reducing security for members.

It is recognised that targeting higher levels of investment return introduces investment risk which increases the volatility of the funding position.

2.2 Setting the Strategic Asset Allocation

The Trustees' strategic asset allocation is determined after considering written advice from the investment adviser and is designed to strike a balance between the above objectives. The strategic asset allocation takes into account:

- the nature and timing of liability payments;
- expected levels of investment return on the different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the Scheme's funding position;
- the sponsoring employer's ability to withstand the additional contribution requirements that may arise from such volatility in the funding position; and
- the full range of available investments (within the bounds of practicality).

In determining the strategic asset allocation, the Trustees view the investments as falling into two broad categories:

1. **Growth Assets –** Assets that are expected to deliver long-term returns in excess of liability growth. The use of Growth Assets is expected to deliver a level of investment returns deemed appropriate by the Trustees given the risk involved.
2. **Liability Matching Assets –** Assets that are expected to react to changes in market conditions in a similar way to the liabilities. The use of Liability Matching Assets is expected to protect the funding position of the Scheme.

The Trustees' strategic asset allocation is detailed in the Appendix.

3. Implementation

3.1 Implementation of the Investment Strategy

Day-to-day management of the assets is delegated to one or more investment managers. The mandates set for the investment managers are intended to implement the Trustees' investment objectives within an acceptable level of risk.

Details of the mandates set for the investment managers are provided in the Appendix.

The Trustees are satisfied that the investment managers have the appropriate knowledge and experience for managing the investments.

The Trustees consider each investment manager's mandate carefully to ensure it is appropriate. Where pooled investment vehicles are used, it is recognised that the mandate cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that any pooled investment vehicles used are appropriate to the circumstances of the Scheme.

The Trustees, in conjunction with their investment adviser, regularly review each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager's mandate.

3.2 Safekeeping of Assets

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

3.3 Regulated Markets and Derivatives

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The investment managers are permitted to use derivative instruments to reduce risk (for example to mitigate the impact of a potential fall in markets) or for efficient portfolio management. Efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

The derivatives used by the investment managers of the Liability Matching Assets may result in the Liability Matching Assets being leveraged. Since these assets are closely aligned to the liabilities, the allocation to Liability Matching Assets (and any associated derivatives) reduces the volatility of the Scheme's funding position and therefore reduces risk.

4. Risks and Other Matters

4.1 Investment Risks

Identification, measurement and management of risk form an integral part of the process adopted by the Trustees to determine an appropriate investment strategy. The principal investment risks are listed in a separate Investment Risks Policy document along with an explanation of how those risks are managed.

4.2 Financially Material Considerations

In determining the Scheme's strategic asset allocation, the Trustees consider all matters which are expected to be financially material.

Economic and Market Considerations

The Trustees recognise that the long-term performance of investment markets and the future levels of inflation and interest rate will impact on the future funding position of the Scheme. The Trustees have considered the potential funding level volatility as a consequence of these factors and are satisfied that the strategic asset allocation controls this volatility to an acceptable level. In reaching this conclusion, the Trustees consider the covenant strength of the sponsoring employer.

Environmental, Social and Corporate Governance (ESG) Considerations

The Trustees maintain a separate document entitled 'Investment Principles and Beliefs' dated 20 June 2019, which records the Trustees' beliefs in a number of areas, including ESG considerations. This document should be read alongside this statement.

4.3 Employer-Related Investment

The proportion of the Scheme investments which can be related to the sponsoring employer (as defined within legislation) is limited to 5% of the value of total assets.

The Trustees do not hold any direct employer-related assets and any indirect exposure is expected to be less than 5% of total assets.

4.4 Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are held separately from the main assets. From time to time the Trustees review the range of available funds to ensure the choice remains appropriate for members' needs.

Details of the current AVC arrangements are provided in the Appendix.

5. Future Amendments

From time to time, and following receipt of advice from its investment adviser, the Trustees may agree to make changes to the investment strategy set out in this statement. Any such changes will be summarised in an addendum to this statement.

Before any changes are made to the investment strategy, the Trustees will consult with the sponsoring employer.

The principles set out in this statement have been agreed by the Trustees:

………………………………………………………… Date: ………………………

For and on behalf of the Trustees of the Haseltine Lake Staff Pension Scheme

………………………………………………………… Date: ………………………

For and on behalf of Haseltine Lake LLP, the sponsoring employer

Appendix 1: The Trustees' Investment Strategy

The Trustees insure a proportion of the Scheme's pensioner liabilities with Aviva and Prudential. These insurance policies will provide a stream of income in respect of named individuals for as long as those individuals are alive. The income received offsets pension payments made from the Scheme to the individuals concerned.

The Trustees have appointed Mobius Life Limited (Mobius) to manage the main assets of the Scheme. The mandate the Trustees have given to Mobius reflects the principles and policies as set out in the main body of this Statement and further details of the specific arrangements in place with the Mobius are contained in this Appendix.

Asset Allocation

The Scheme assets are invested in the following underlying pooled funds:

Pooled Investment Vehicle	Allocation as at 31 December 2018 (% of Scheme Assets)
LGIM Matching Core Real Long Fund	17.1
Total Liability Matching Assets	**17.1**
LGIM World Equity Index Fund	9.5
Schroder Life Intermediated Diversified Growth Fund	36.6
Baillie Gifford Multi-Asset Growth Fund	26.7
Allianz Global Multi-Asset Credit Fund	10.1
Total Growth Assets	**82.9**

The allocation shown above is not automatically rebalanced but is monitored and rebalanced at the discretion of the Trustees.

Liability Matching Position

The value of the Liability Matching Assets is expected to move in a similar way to changes in the value of the Scheme's liabilities as expectations for future interest rates and inflation vary.

Sensitivity to changes in expectations for future interest rates

The above strategy is expected to broadly match liabilities up to around 30% of the value of the Scheme's liabilities based on analysis as at 31 August 2018.

Sensitivity to changes in expectations for future inflation

The above strategy is expected to broadly match liabilities up to around 40% of the value of the Scheme's liabilities based on analysis as at 31 August 2018.

Cashflow Policy

Any investments are made at the discretion of the Trustees, but it is expected that these will normally be paid into the Schroder Life Intermediated Diversified Growth Fund.

Any disinvestments are made at the discretion of the Trustees, but it is expected that these will normally be taken from the Baillie Gifford Multi-Asset Growth Fund.

The Liability Matching Assets are held to match the liabilities rather than be a specified proportion of the total assets. As such, routine investments or disinvestments will not normally be paid into, or taken from, the Liability Matching Assets.

Recapitalisation and Re-Leverage Policy

In the event of a large increase in yields, a contribution may need to be paid into the LGIM Matching Core Real Long Fund. This will recapitalise the fund and keep leverage within a permissible range. The Trustees have agreed that any such contributions will be taken from the Baillie Gifford Multi-Asset Growth Fund.

If the leverage of the LGIM Matching Core Real Long Fund falls below a minimum threshold, LGIM will make a cash payment from the relevant fund to raise the leverage. The Trustees have agreed that any such payments will be invested in the Baillie Gifford Multi-Asset Growth Fund.

Dynamic De-Risking

The Trustees have agreed to receive regular monitoring of the Scheme's funding position under First Actuarial's *f1rstflight* software. If the funding level is above a pre-determined De-Risking Trigger, a suitable proportion of Scheme holdings will be switched from Higher Risk Growth Assets to Matching Assets (or Lower Risk Growth Assets).

The Target of the Dynamic De-risking framework is to be invested as follows when the Scheme is 100% funded on the Statutory Funding Objective (SFO) basis:

- 10% Equity
- 45% Diversified Growth Funds
- 15% Diversified Credit Funds
- 30% Liability Matching Funds (including LDI where appropriate)

Further details on the De-Risking strategy are covered in the *f1rstflight* framework document dated February 2019, which has been agreed and signed by the Trustees.

Appendix 2: Fund Details

This Appendix provides a summary of the funds currently used to implement the Trustees' investment strategy.

Details of the funds used are summarised below. The fee information includes:

- AMC – the Annual Management Charge applicable to each fund which covers the underlying fund manager fee and the charge levied by Mobius for accessing the fund via the Mobius platform.
- Additional expenses – these are third party costs associated with the operation of a fund such as fees paid to the administrator, the custodian and the auditor and the costs associated with the use of third-party funds where these are used. The level of the additional expenses may vary over time.

Liability Matching Assets

The Liability Matching Assets have been selected by the Trustees having regard for the nature of the Scheme's liability profile. As market conditions change, the value of the Liability Matching Assets is expected to move broadly in line with the proportion of the Scheme's liabilities being matched. Details of the Liability Matching Assets are:

LGIM Matching Core Real Long Fund		
Objective	To provide liability hedging based on the liability cashflows of a typical UK pension scheme.	
Fee	AMC:	0.24% per annum
	Additional Expenses (approx.):	0.05% per annum

Growth Assets

The Trustees' expectation is that the Growth Assets will provide returns in line with each fund's stated objective. Details of the Growth Assets are:

LGIM World Equity Index Fund		
Objective	The LGIM World Equity Index Fund employs an index-tracking strategy aiming to replicate the performance of the FTSE World Index (less withholding tax if applicable) to within +/-0.5% p.a. for two years out of three.	
Fee	AMC:	0.16% per annum
	Additional Expenses (approx.):	0.00% per annum

Schroder Life Intermediated Diversified Growth Fund		
Objective	The Schroder Life Diversified Growth Fund aims to invest in a broad range of asset classes to aim to generate a return of UK inflation (as measured by the UK Consumer Price Index) + 5% pa over an economic cycle (net of fees), typically a five year period, with a volatility less than two thirds of global equities.	
Fee	AMC:	0.70% per annum
	Additional Expenses (approx.):	0.07% per annum

Baillie Gifford Multi-Asset Growth Fund		
Objective	The Baillie Gifford Multi-Asset Growth Fund invests in a variety of asset classes with the aim of achieving long-term capital growth at a level of risk lower than investment in equities. The fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.	
Fee	AMC:	0.475% per annum
	Additional Expenses (approx.):	0.09% per annum

Allianz Global Multi-Asset Credit Fund		
Objective	The Allianz Global Multi-Asset Credit Fund aims to generate positive returns through the interest rate and economic cycles.	
Fee	AMC:	0.50% per annum
	Additional Expenses (approx.):	0.00% per annum

Additional Voluntary Contributions

The AVCs are invested in funds managed by the Prudential Assurance Company and the Equitable Life Assurance Society.